

MICHIGAN LEGISLATURE  
HOUSE BANKING AND FINANCIAL SERVICES COMMITTEE

**Standing Committee Hearing**  
**Testimony on Predatory Lending from a Consumer Advocacy Perspective**  
Tuesday, November 27, 2007

SPOKEN AND WRITTEN TESTIMONY OF  
THE AMERICAN FINANCIAL SERVICES EDUCATION FOUNDATION

I'd like to begin by thanking Representative Colouris and the members of the Banking and Financial Services Committee for this opportunity to address you on the subject of financial literacy education, and specifically, my own foundation's *MoneySKILL®* online personal finance course for high school students. For the record I am Susie Irvine, and I am the President and CEO of the American Financial Services Association Education Foundation.

I understand that, under Michigan's 2002 Consumer Mortgage Protection Act, your regulator is required to develop and distribute model programs for financial education to local units of government, financial institutions and other interested persons. With this in mind, I believe you will find that *MoneySKILL®* could have considerable potential in fulfilling this requirement in your state.

Before I go into detail about *MoneySKILL®*, you might find it useful to hear some background information about who we are. The AFSA Education Foundation is the financial literacy arm of the American Financial Services Association – the national trade association for the consumer credit and finance industry, that includes among its 350 member companies many mortgage lenders. The Foundation has been a leader in recognizing the need for personal finance education since the mid 90s and is a founding member of the national Jumpstart Coalition for Personal Financial Literacy. AFSA itself and the Education Foundation share a commitment to financial literacy education. Our education programs focus on empowering the individual to make sound financial decisions and avoid abusive or fraudulent loan situations.

At the Education Foundation, we run a number of programs targeting people of all ages and in all walks of life focused on teaching the basics and complexities of personal finance. Among these, and in many ways chief among our programs, is *MoneySKILL®* - the foundation's free online personal finance course aimed at the millions of high school students who graduate each year without an understanding of credit cards, budgeting, insurance or other money management fundamentals. Vital to this program are the steps we take to train teachers so that they can use it to maximum effect. I am sure we all agree that teaching these essential life-skills to our high school students is good policy.

The *MoneySKILL®* course was created initially and carried to its current level of dissemination in response to an identified need for financial literacy education reflected in the disturbing results of Jumpstart's five nation-wide surveys of high school seniors. These surveys showed that high school seniors nationwide scored slightly above 52 percent on a test of very basic financial literacy skills—a failing grade. This research has established that our young adults do not possess the tools and knowledge of personal finances required to get started in life without financial mishap.

This perhaps, should be given some perspective – the teen market has immense buying power. In 2006 alone, teenagers spent over \$179 billion dollars on products and services. And I'm sure that you won't be surprised to hear where the majority of this money came from.

That's right, - 58% from parents!

*MoneySKILL®* intends to ensure that this money is spent wisely!

The 34 module course covers the content areas of income, expenses, assets, liabilities and risk management. After each concept is presented, the student is challenged by a case, problem or question which allows them to demonstrate understanding. The student is told whether his or her answer is correct.

To evaluate effectiveness of both content and method of presentation, students are given pre- and post- tests, and are evaluated by module test scores.

MoneySKILL® is the only financial literacy curriculum with a student life-simulation module that requires students to project their own life expectancies regarding jobs, neighborhoods, cars, education, marriage and children. The simulation allows students to incorporate the MoneySKILL® personal finance concepts into their everyday lives and challenges them to make the concepts their own, providing them with skills that will last a lifetime.

MoneySKILL® is designed to be used as all or part of a grade for courses in business, economics, math, social studies, or other courses where personal finances are taught. MoneySKILL® can be assigned as homework, a project to be completed outside the class or during the class as a group. Students can access MoneySKILL® from any computer that has an online connection and as many times a day as they want.

Early on, we determined that the best way to instruct teachers in the most effective use of MoneySKILL® is through training sessions. These workshops familiarize teachers with the curriculum and the easy-to-use administrative website, including the registration pages for teachers, classes and students and an electronic gradebook. When possible, these sessions are offered in computer labs so teachers can experience hands-on instruction and one-on-one guidance for using MoneySKILL.

Personal finance is a technical area, and not all schools have teaching staff qualified to teach the subject matter. In addition, there has been a historical lack of resources for teachers who wish to provide financial literacy education. MoneySKILL® aims to address these challenges while meeting the state academic content standards for personal financial literacy. We are experiencing the snowball effect from teachers that are quite excited – but desperate to find just such a resource for teaching personal finance concepts.

So far this year, we have offered teacher training sessions in 25 states reaching more than 2,000 teachers. These workshops are coordinated with state Jumpstart Coalitions for Personal Financial Literacy, regional and state Business Education Associations, the Wisconsin Office of Financial Literacy and the University at Buffalo. This year we were

invited to present at the National Academy of Finance which has a presence in 40 states and the District of Columbia.

More than 5,000 teachers from all fifty states and more than twenty foreign countries have registered to use MoneySKILL® to teach students personal finance concepts; nearly 70,000 students have been enrolled in the course. MoneySKILL® is correlated to Jump\$tart's National Standards in K-12 Personal Finance Education as well as state standards in personal finance.

In Michigan, the statistics show that 90 teachers have registered, since 2003 and 288 students have enrolled in the course. These statistics are nothing to be ashamed of, but it is obvious that there is the potential for much wider pick-up here.

Recently, the National Council on Economic Education released a survey of the states on Economic, Personal Finance and Entrepreneurship Education. The results reveal that states haven't made enough progress on their commitment to offer or require personal finance and economic education in our nation's schools.

Personal Finance is now included, to at least some extent in the educational standards of 40 states; 28 states require these standards to be implemented.

Unfortunately, only 7 states require students to take a personal finance course as a high school graduation requirement and only nine states require the testing of student knowledge in personal finance.

There is really no excuse for this. Our goal is to make high quality, detailed personal finance education available immediately to students' throughout the United States without any financial burden on the schools, teachers and students.

Much, much more must be done. I implore you, as legislators, to work to make personal finance a required course in schools in Michigan— we must start teaching these personal finance concepts in the elementary grades. Much like reading and arithmetic, the basic concepts of a personal finance course will gain momentum and relevance as students' knowledge evolves.

I'd like to close by thanking you for listening to my testimony, and for the work that you undertake in advancing the cause of financial literacy education. It is obvious to me, through the legislative steps you have taken, that the will to raise the game in terms of financial literacy education exists in Michigan. Please be assured of our commitment to work with you to get this done.

Together, we can strive to make sure that young, educated, informed adults enter the marketplace equipped to make sound financial decisions and avoid the pitfalls of over-indebtedness, home foreclosure and bankruptcy.

Thank you for your time.

Susie Irvine



# moneySKILL® 2007



FREE ONLINE COURSE!

[www.moneyskill.org](http://www.moneyskill.org)



## ONLINE HIGH SCHOOL PERSONAL FINANCE COURSE

- ★ *Covers: Income, Expenses, Assets, Liabilities and Risk Management*
- ★ *Aligns with National Standards in K-12 Personal Finance Education*
- ★ *Easy-to-Use Teacher Administration Site*
- ★ *Electronic Grade Book that Makes Teachers' Lives Easier*



## 2007 ENHANCEMENTS

- ★ *Stand-Alone Modules*
- ★ *Upgraded State-of-the-Art Technology*
- ★ *Aligning Curriculum with state Standards of Education for K-12*



AFSA EDUCATION  
FOUNDATION  
*Brightening Your Financial Horizon*

*MoneySKILL®, a free online course  
on income, expenses, assets, li*

*"MoneySKILL® is  
an easy-to-use tool for  
time-strapped teachers."*

Mike Scherck  
Baraboo High School  
Baraboo, WI



*"MoneySKILL® enabled  
me to cover more material  
in my economics class by  
assigning the personal  
finance material as an  
independent study."*

Michael T. Wright  
Williamsville East High School  
Williamsville, NY



*"MoneySKILL® is a  
user-friendly tool that  
fills a critical need for  
today's students."*

Jonathan Kiefer  
The Buffalo Academy  
of the Sacred Heart  
Buffalo, NY



*"I strongly encourage all  
schools in Wisconsin to take  
advantage of MoneySKILL®."*

*It's a great resource that  
costs nothing and requires  
little of a teacher's time but  
gives students financial  
skills that will last a  
lifetime."*

Governor Jim Doyle  
Madison, WI

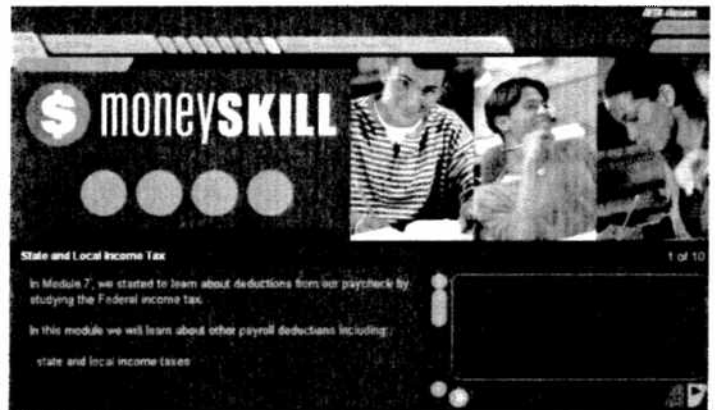


The American Financial Services Association Education Foundation (AFSAEF) has developed and made available *free of charge* MoneySKILL®. This interactive online personal finance curriculum is aimed at the millions of high school students who graduate each year without a basic understanding of money management fundamentals.

The program is designed to be used as all or part of a grade for courses in economics, math, social studies or other courses where

personal finances are taught. Students experience the interactive curriculum as both written text and audio narration; in addition, frequent quizzes test their grasp of

each and every concept. The 34-module curriculum includes the content areas of income, expenses, assets, liabilities and risk management. A life simulation module asks students to project their own life expectancies regarding jobs, neighborhoods, cars, education plans, marriage plans, and the number of children they plan to have. The simulation allows students to incorporate the MoneySKILL® personal finance concepts into their everyday lives. It challenges them to make the concepts their own, providing them with skills that will last a lifetime.



MoneySKILL® is ideal for high schools because it incorporates these specific features:

- ★ It's free!
- ★ Teachers can go through the program as a student and learn where he/she is strong in the subject matter and where additional preparation is needed.
- ★ Teachers with limited time can select specific modules for students.
- ★ Built-in grade book that electronically records each student's pre- and post-test scores, module test scores and course grade.

teaches personal finance concepts  
abilities and risk management.

# modules

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## *Pre-Test*

### *Introduction*

1. The Plans We Have for Our Lives
2. Andrew's Simulation

### *Income*

3. Earned Income and Skill Demand
4. Earned Income and Skill Supply
5. Property Income
6. Income from Financial Assets
7. The Consumer Life Cycle
8. Income Over the Life Cycle
9. Federal Income Taxes
10. Other Deductions from Pay

### *Expenses*

11. Tracking Expenses and Budgeting
12. Paying for What We Buy
13. Using a Checking Account
14. Renting a Home
15. Owning a Home
16. Food and Clothing
17. Buying or Leasing a Vehicle
18. Operating a Vehicle
19. Vacation and Leisure

## *Assets*

20. Investing in Physical Assets
21. Saving
22. Short-Term Saving Vehicles
23. Fixed Income Assets
24. Equities
25. Mutual Funds
26. Investing in Business

## *Liabilities*

27. Costs and Benefits of Borrowing
28. Secured Borrowing
29. Credit Cards
30. Your Credit Rating

## *Risk Management*

31. Understanding Insurance
32. Life and Disability Insurance
33. Health Insurance
34. Retirement

## *Life Simulation*

## *Post-Test*

# requirements

### **Windows:**

**Microsoft Internet Explorer version 6 or Higher\***

**Macromedia Flash Player version 8 or Higher\***

**Adobe Acrobat Reader\***

**Broadband Internet Connection**

\*These items can be downloaded free of charge.

# workshops

The staff of the AFSA Education Foundation now offers hands-on, "how-to" MoneySKILL® sessions to wide-ranging groups nationwide, including teacher trainings. For more information, please contact Susie Irvine at (888) 400-7577.

or [info@moneyskill.org](mailto:info@moneyskill.org).

[www.moneyskill.org](http://www.moneyskill.org)



For more information, please contact



919 Eighteenth Street, NW • Suite 300 • Washington, DC 20006-5517

Phone: (888) 400-7577 • E-mail: [info@moneyskill.org](mailto:info@moneyskill.org)

Web: [www.moneyskill.org](http://www.moneyskill.org)

# MORTGAGE LOANS

*Understand the Terms of Your Loan Before You Sign...*



**KNOW THE TERMS OF YOUR LOAN BEFORE YOU SIGN AND  
SHOP FOR THE BEST DEAL WHEN BORROWING FOR A  
MORTGAGE LOAN.**

Just because a lender is willing to make you a loan doesn't mean that it is the right loan for you. Take the time to know and understand all of the terms, conditions and costs of a loan before you sign the contract. Use the list below to review mortgage offers that you receive. Be sure to comparison shop and talk to more than one lender.

**ADJUSTABLE RATE** — An interest rate that changes over the life of the loan, resulting in possible changes in the monthly payments, loan term, and/or principal. Some plans have rate or payment limits, so your payment cannot go above a fixed amount.

(Yes No) \_\_\_\_\_ %

How much  
can it change \_\_\_\_\_ %

There are many different types of adjustable-rate mortgages (ARMs), including:

- A 2/28 loan (a 30-year loan with a fixed rate for the first two years and an adjustable rate for the remaining 28)
- Interest only loan (IO loan) in which you make interest only payments for a set time with no reduction in the principal loan balance
- Option ARM (or payment option ARM) which allows you to choose among several payment options each month during the first few years of the loan (could result in limited reduction of principal or possibly an increase in the loan balance) depending on the payment option you choose

**ANNUAL PERCENTAGE RATE (APR)** — The cost of credit expressed as a percentage. This includes any finance charges and additional fees.

\_\_\_\_\_ %  
\$ \_\_\_\_\_

**APPLICATION FEE** — A fee to cover the costs of processing the application, documentation and verification.

(Yes No) \$ \_\_\_\_\_

**ARBITRATION CLAUSE** — A provision in the contract that states that disputes will be handled through arbitration. Arbitration requires the borrower and lender to use a third-party to settle the dispute.

(Yes No) \$ \_\_\_\_\_

**BALLOON PAYMENT** — A final, lump sum payment due at the end of the loan term.

(Yes No) \$ \_\_\_\_\_  
When due? \_\_\_\_\_

**BROKER FEE** — A fee that can be charged directly to the borrower or financed in the loan; the fee may include compensation provided from the lender to the broker.

(Yes No) \$ \_\_\_\_\_

**CLOSING COSTS** — Expenses to close the loan, such as legal fees, title search, appraisal fee, filing of the mortgage deed, points, and annual fees. Before closing your loan, the lender must provide you with a detailed list of your actual closing costs.

Attorney Fee \$ \_\_\_\_\_

Title Search \$ \_\_\_\_\_

Appraisal Fee \$ \_\_\_\_\_

Mortgage Deed Filing \$ \_\_\_\_\_

Annual Fee \$ \_\_\_\_\_

Other Fees \$ \_\_\_\_\_

**CREDIT INSURANCE** — Optional insurance that is designed to repay part or all of the debt if the borrower dies or becomes disabled. The cost of credit insurance coverage must be disclosed in writing. You are entitled to receive a copy of the certificate of insurance from the lender.

(Yes No) \$ \_\_\_\_\_

**FINANCE CHARGE** — The total dollar amount you pay to use credit.

\$ \_\_\_\_\_

**FIXED RATE** — An interest rate that does not change over the life of your loan. You make equal monthly payments of principal and interest until the debt is paid in full.

(Yes No) \_\_\_\_\_ %

**MONTHLY PAYMENT AMOUNT** — The dollar amount due each month to repay the loan.

\$ \_\_\_\_\_

**PREPAYMENT PENALTY** — A fee that may be due if you pay off the loan early by refinancing or selling your home.

(Yes No) \$ \_\_\_\_\_

**LOAN AMOUNT** — The dollar amount of the credit that is provided to you. This includes any cash you receive, as well as the amounts you may pay to other creditors and fees paid by you or your lender.

\$ \_\_\_\_\_

**POINTS** — Finance charges paid at the beginning of a loan. One point equals one percent of the loan amount.

(Yes No) \_\_\_\_\_

**SERVICE FEE** — A fee charged to process the monthly payment associated with the loan.

(Yes No) \$ \_\_\_\_\_

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### MONTHLY SPENDING PLAN

1 - Complete **Column ①** based on your current financial situation.

Start with your monthly take-home pay. This is the amount you have left after taxes and other deductions have been made. Include regular, part-time and other sources of income.

Subtract the amount you need for savings, monthly expenses and monthly credit/loan payments.

The remaining balance is the amount you can afford to put toward the new mortgage payment or apply to debt repayment or savings.

2 - Complete **Column ②** based on your new financial situation. This column will show your new mortgage payments and adjustments you've made to expenses and credit obligations

The remaining balance in **Column ②** will indicate whether you can afford the new mortgage payment and change in projected expenses.

MONTHLY SPENDING PLAN	① CURRENT	② REVISED
Monthly Take Home	\$	\$
Saving	- \$	- \$
Monthly Expenses:	- \$	- \$
Mortgage Payment/Rent	- \$	- \$
Utilities	- \$	- \$
Food / Groceries	- \$	- \$
Lunches / Dinners Out	- \$	- \$
Transportation	- \$	- \$
Insurance (Home, Car, Life)	- \$	- \$
Taxes	- \$	- \$
Clothing	- \$	- \$
Personal	- \$	- \$
Entertainment	- \$	- \$
Gifts & Contributions	- \$	- \$
Family Allowance	- \$	- \$
Child Care	- \$	- \$
Education	- \$	- \$
Credit Card Payments	- \$	- \$
Car Payments	- \$	- \$
Other	- \$	- \$
Remaining Balance	= \$	= \$

This brochure can help you become familiar with basic mortgage loans, determine what terms are best for your situation, and identify issues you should be aware of before taking out a mortgage loan.

Mortgage loans are secured by a borrower's home. **This means that if you are unable to make the monthly payment for the mortgage, the lender can foreclose and take your home.** The amount of your loan will be determined by your home's value minus any liens or unpaid mortgage(s).

**Standard home equity loans or second mortgages are closed-end loans**, meaning the loan proceeds are usually made available in a lump sum. These loans can have a fixed term, a fixed interest rate, and fixed monthly payments, **or they can carry an adjustable interest rate that fluctuates with an index, such as the prime rate. Some adjustable-rate mortgages (ARMs) are "hybrid ARMs" which have a fixed rate for an initial period, then a fluctuating rate for the remainder of the loan.**

**Home equity lines of credit are open-end loans or revolving credit lines.** This means you can draw in amounts of money and at times when you have the need. The lender provides you with checks or other means to access your credit line. You may draw upon the account as long as you don't exceed your line of credit and are not in default. The amount of the monthly payment is based on the amount of credit you have used. Some lenders may charge a fee for the use of the line of credit. Home equity lines of credit can have a fixed or adjustable interest rate.

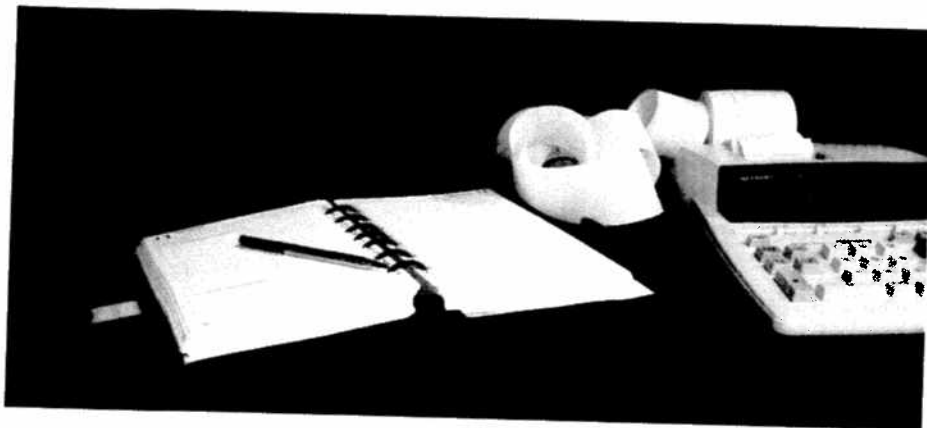


## CAN YOU AFFORD THIS LOAN?

Before applying for a mortgage loan, make sure you have enough money to cover your monthly expenses. If you're spending less each month than you take home, and the additional debt load will not cut into the amount you've set aside for savings, only then should you consider taking on additional debt.

Once you have established the amount you want to borrow, take time to figure out what you can afford for a monthly payment without putting a strain on your budget.

If you are applying for an ARM, you will need to think carefully about your ability to make future monthly payments once the loan "resets," or adjusts to a new rate after the initial payment period.



## REMEMBER...

- Don't sign a contract until you have read it, your questions have been answered and all blank spaces have been filled in.
  - Make sure the loan payment and terms you were quoted agree with the loan payment and terms stated in your loan agreement or note.
  - You have the legal right to cancel a credit transaction on a refinanced or consolidation loan within three business days from the day the transaction is completed or closed.
  - You have the right to change your mind on a home purchase mortgage loan at any time prior to the loan closing.
  - You can lose your home if you don't make the payments on your mortgage or home equity loan.
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**IF YOU EXPERIENCE FINANCIAL DIFFICULTY AND HAVE  
TROUBLE MAKING YOUR MORTGAGE PAYMENT**

- Contact your lender as soon as possible. Explain your situation and the reason your payment will be late. The sooner you act, the more likely you are to have a positive outcome.
- Find out your options. These may include forbearance (when the lender postpones foreclosure to give the borrower more time to make payments), mortgage modification programs and help with selling your home before foreclosure occurs.
- Consider refinancing if it puts you in a better position than you are now. This involves evaluating all costs to refinance, including whether you'll have to pay a prepayment penalty.
- Contact an approved housing counseling agency. For a list of agencies approved by the U.S. Department of Housing and Urban Development, visit [www.hud.gov/offices/hsg/sfh/hcc/hcs.cfm](http://www.hud.gov/offices/hsg/sfh/hcc/hcs.cfm).

Another source of help is the Homeownership Preservation Foundation ([www.995HOPE.org](http://www.995HOPE.org)), which has counselors from HUD-certified agencies and sponsors a toll-free hotline (888-995-HOPE) dedicated to preventing foreclosures.

- Watch out for scams. Be leery of “foreclosure specialists” who offer to assist you in stopping or preventing foreclosure.
- Stay in your home for the time being. You may not qualify for assistance if you abandon your property.





## FOR MORE INFORMATION:



AFSA EDUCATION  
FOUNDATION  
*Brightening Your Financial Horizon*

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Phone: 888-400-2233  
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919 18th Street, NW  
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Phone: 202-296-5544  
Web site: [www.afsaonline.org](http://www.afsaonline.org)



American Association of Residential Mortgage Regulators  
1255 Twenty-Third Street, NW  
Suite 200  
Washington, DC 20037  
Phone: 202-521-3999  
Web site: [www.aarmr.org](http://www.aarmr.org)

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